

Chapter 5

The Financial Environment: Markets, Institutions, and Interest Rates

LEARNING OBJECTIVES

After reading this chapter, students should be able to:

- List some of the many different types of financial markets, and identify several recent trends taking place in the financial markets.
- Identify some of the most important money and capital market instruments, and list the characteristics of each.
- Describe three ways in which the transfer of capital takes place.
- Compare and contrast major financial institutions.
- Distinguish between the two basic types of stock markets.
- Explain how capital is allocated in a supply/demand framework, and list the fundamental factors that affect the cost of money.
- Write out two equations for the nominal, or quoted, interest rate, and briefly discuss each component.
- Define what is meant by the term structure of interest rates, and graph a yield curve for a given set of data.
- Explain the two key factors that determine the shape of the yield curve.
- Discuss country risk.
- List four additional factors that influence the level of interest rates and the slope of the yield curve.
- Briefly explain how interest rate levels affect business decisions.